ANALYSIS OF WASHINGTON, DC METRO AREA REAL ESTATE MARKET CONDITIONS' IMPACT ON THE VALUATION OF GSA ASSETS

September 22, 2015

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Section 1: GSA Market Analysis Overview

GSA DC Market Analysis Overview
September 22, 2015

GSA continues to explore innovative strategies to better manage, maintain and renovate its aging portfolio to meet its customers' needs. Given the prime downtown DC locations of many of these assets, GSA may be able to leverage the value of these assets through disposition/exchange. An overview of the attributes, potential uses, and hurdles were provided for four GSA assets to better understand the impact of local market conditions on future disposition/exchange opportunities and to assist GSA in developing a strategy to better realize the value of these four real estate assets. This document is a brief overview of the executive summary and the more extensive research report that detail data around potential courses of action. The intent of this overview is to provide highlights of the executive summary and draw conclusions based on the market research.

Overview of Redevelopment Potential, Volume, and Timing of Disposals of GSA Assets:

1. Real estate market fundamentals are stronger in Capitol Hill/East End submarkets than the Southwest Submarkets. However, properties in the Southwest Submarkets may attract developer interest for renovation, redevelopment, or repurposing due to location, proximity to public transportation/roadways, and zoning/density rights.
2. Disposal of Forrestal together with the Wright Buildings as a single master-planned development opportunity (22 acres) may create more value to GSA than disposal as individual assets based on the lack of development sites of similar size and characteristics within the urban core.
3. Disposal of Frances Perkins might wait until completion of Capitol Crossing (est. completion 2020) and Hoover (TBD), as both will seek similar tenants and developments to Perkins.
4. Value of GSA assets is impacted by volume and pipeline, but can be eclipsed by Government disposal timelines and processes. Timing delays and changes in scope can reduce monetary returns from the disposal of assets even in favorable markets conditions.

Overview of Assets Reviewed

Asset	Attributes	Potential Uses[1]	Hurdles
Department of Labor, Frances Perkins Building	• 10-acre site can be marketed "as-is" or as a mixed-use redevelopment site • Proximity to Gallery Place metro station and the Capitol Building • Submarket has strong real estate market valuation fundamentals • Office demand to grow due to increasing demand from government relations and lobbying firms • Proposed zoning will allow for density up to a 6.5 FAR as office, or limited by building height and bulk for residential/mixed-use (current density is 4.36)	**Product Types:** • Office • Mixed use (office/retail) • Residential mixed use (office/retail/residential) • Legislative Branch and Diplomatic (Embassy, Chancery, etc.) **Potential Density (FAR)[2]:** As-Is: 1.9M GSF New Office: 2.8M GSF Residential: 3.9M GSF Mixed-Use: 2.8–3.9M GSF	• Disposal would add 1.4 million RSF of office to the Capitol Hill submarket, unless redeveloped to mix-use • Cannot parcelize asset for disposal • Market vacancy is on the decline, but new Class A office product and mixed-use projects are in the pipeline; • The redevelopment of the J. Edgar Hoover Building (proposed) and Capital Crossing (est. completion 2020) may compete for tenants if the projects broke ground concurrently
James V. Forrestal Building	• 16-acre site will allow for large, mixed use planned development • Prestigious address, views of the National mall, proximity to metro/VRE and roadways • Mixed-use projects like the Wharf (Phase 1-2017) could help reshape the market longer term • NCPC support to repurpose asset	**Product Types:** • Hotel • Residential (high-end condos and apartments) • Residential mixed use (office/residential/retail) • Museum • Diplomatic (Embassy, Chancery, etc.)	• Soft market fundamentals for commercial and residential real estate • Cannot parcelize asset for disposal • Almost non-existent residential market and a lack of neighborhood amenities to attract initial interest for

Asset	Attributes	Potential Uses[1]	Hurdles
	through the SW Eco District initiative • Proposed zoning will allow for density up to a 6.5 FAR as office, or limited only by building height and bulk for residential/mixed-use (current FAR is 2.58)	**Potential Density (FAR)[2]:** As-Is: 1.8M GSF New Office: 4.5M GSF Residential: 6.3M GSF Mixed-Use: 4.5–6.3M GSF	residential or hospitality use • With exceptions (e.g. the Wharf), there has been limited investor interest for speculative development in this submarket • Additional office in this submarket would add to existing oversupply
Orville Wright Federal Building	• Prestigious address, prime views of the National mall, proximity to metro/VRE and roadways are key features • Small site will allow for disposal as a stand-along asset or in combination with Wilbur Wright or Forrestal • NCPC support to repurpose asset through the SW Eco District initiative • Proposed zoning will allow for density up to a 6.5 FAR as office, or limited by building height and bulk for residential/mixed-use (current FAR is 6.31)	**Product Types:** • Hotel • Residential (high-end condos and apartments) • Residential mixed use (office/residential/retail) • Museum • Diplomatic (Embassy, Chancery, etc.) **Potential Density (FAR)[2]:** As-Is: 1.1M GSF New Office: 1.1M GSF Residential: 1.7M GSF[2] Mixed-Use: 1.1–1.7M GSF[2]	• Soft market fundamentals for commercial and residential real estate • Current lack of neighborhood amenities to attract future residents • With exceptions (e.g. the Wharf), there has been limited investor interest for spec development in this submarket • Additional office in this submarket would add to the oversupply • Historic eligibility may limit future uses and density potential, limiting value.
Wilbur Wright Federal Building	• Prestigious address, prime views of the National mall, proximity to metro/VRE and roadways are key features • Small site will allow for disposal as a stand-along asset or combined with Orville Wright or Forrestal • NCPC support to repurpose asset through the SW Eco District initiative • Proposed zoning will allow for density up to a 6.5 FAR as office, or limited by building height and bulk for residential/mixed-use (current FAR is 6.31)	**Product Types:** • Hotel • Residential (high-end condos and apartments) • Residential mixed use (office/residential/retail) • Museum • Diplomatic (Embassy, Chancery, etc.) **Potential Density (FAR)[2]:** As-Is: 0.4M GSF New Office: 0.6M GSF Residential: 0.8M GSF Mixed-Use: 0.6–0.8M GSF	• Soft market fundamentals for commercial and residential real estate • Current lack of neighborhood amenities to attract interest for residential or hospitality use • With exceptions (e.g. the Wharf), there has been limited investor interest for spec development in this submarket • Additional office in this market would add to the oversupply • Historic eligibility may limit future uses and density potential, limiting value

[1]Highest and best use study and feasibility analysis recommended, was not included in Scope of Work for current contract.
[2]Maximum density for residential and mixed use is based on an FAR of 9.0. However, new zoning proposed under DC Zoning Regulation Review would make density limited by building height and bulk (not FAR).

Recommended Next Steps (not included in current contract Scope of Work):

(b) (5) [redacted]

Section 2: Executive Summary, DC Market Analysis
Evaluation Factors

General Services Administration
Analysis of Washington DC Metro Real Estate Market Conditions' Impact on the Valuation of GSA Assets

Executive Summary; DC Market Analysis Evaluation Factors

A. Background

GSA continues to explore innovative strategies to better manage, maintain, and renovate its aging portfolio to meet its customers' needs. Given the prime downtown DC locations of many of these assets, GSA may be able to leverage the value of these assets through a disposition or exchange. Currently, GSA is pursuing two proposed exchanges in DC; one includes the J. Edgar Hoover Building at 935 Pennsylvania Avenue, NW and the other includes the Cotton Annex Building at 300 12th Street, SW, and the GSA Regional Office Building at 7th and D Streets, SW. With this market analysis, GSA aims to better understand local market conditions and the impact these conditions have on future disposition and exchange opportunities for assets in the DC metro area.

This summary reviews three factors used by real estate professionals in determining the desirability of a real estate investment including:

1. Market Conditions
2. Vacancy, Absorption, and Development Pipeline
3. Non-Market Related Factors

The summary draws from the market research contained in the broader report and reviews four potential courses of action using the above factors as a framework for analysis. The intent is to provide a framework for analysis in understanding the impact of each factor on the estimated value of real property assets in Washington, DC as disposal decisions are made.

B. Market Conditions (as of Summer 2015)

<u>Conditions</u>: Current market conditions indicate that the market is strong for real estate investment in Washington, DC.

<u>Results</u>: Rents are high, cap rates remain low, and investment interest is strong within this market.

<u>Conclusion</u>: Early and swift market movers will have significant advantage.

Current market conditions in Washington, DC (as of August 2015), provide a highly favorable climate for real estate investment. The table below summarizes the leading indicators.

Table 1: Market Conditions Analysis

Indicator	Observations	Risks
DC Employment Statistics	***CURRENT CONDITIONS: STRONG*** Increased job growth, generated from non-traditional sectors, and potential for sustainable recovery should translate into increased real estate demand as job growth is a leading indicator of demand for all sectors (office, residential, retail and hospitality).	• Continued Federal budget constraints limit job growth in the Federal government and contractor sectors.
Real Estate Markets	***CURRENT CONDITIONS: STRONG*** Both rental rates and cap rate are trending in directions that support higher valuations in the future.	• Potential for oversupply in the market in the 2018 through 2022 timeframe, coupled with weaker demand levels from traditional tenant base of government, contractors, and law firms will place a ceiling on rent growth and potentially add upward pressure on cap rates.
Capital Markets	***CURRENT CONDITIONS: STRONG*** Investor interest in Washington, DC will remain high. Low interest rates and a relative lack of investment alternatives will continue to drive the DC investment sales market. Prices will remain high and cap rates will remain low as large pools of cash compete over finite buying opportunities.	• With a strengthening domestic economy, interest rates are undoubtedly going up over the next 24 months. • Growth in other fast-growth global real estate markets attracts investment dollars away from Washington, DC real estate markets.

C. Vacancy, Absorption, and Development Pipeline

<u>Conditions</u>: Market currently experiencing declining, but higher than normal vacancy rates, lagging absorption, and growing development pipeline.

<u>Results</u>: Developers will prioritize most attractive properties available in the market.

<u>Conclusion</u>: Current trends indicate strength in hospitality sector; other sectors are strengthening and may be viable at time of transaction.

Vacancy, Absorption, and Development Pipeline in Washington, DC tell a slightly different story than the market indicators. The amount of existing vacant inventory and the potential development pipeline suggest an oversupply of space that does not align with tenant demand. The table below summarizes the leading indicators and potential risks. As retail is generally a support product within Washington, DC, it was excluded from this table.

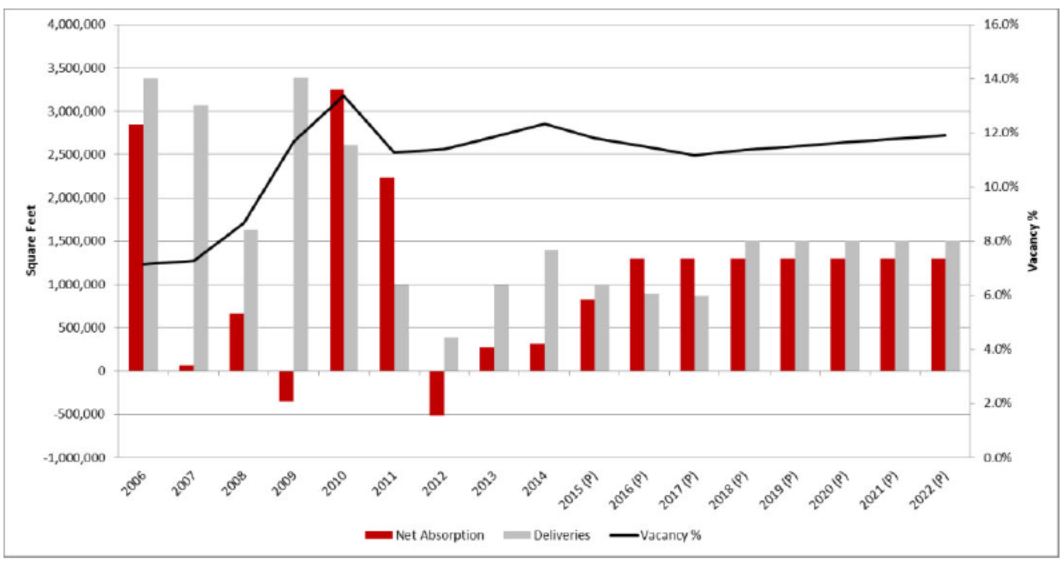
Table 2: Vacancy, Absorption and Development Pipeline

Indicator	Observations	Risks
Vacancy	***CURRENT CONDITIONS: Office and Residential - WEAK; Hospitality - STRONG*** **Office**: Declining trends since 2013 but still at historic highs and may continue to worsen over the next 18 months due to growing pipeline and unmatched demand. Rightsizing among key industry sectors like contractors, law firms, and consulting companies has plateaued in the current cycle. **Residential**: Fluctuated over the past 10 years, especially over the past 18 months and over the next 12 months, as an influx of new units were and will be added to inventory. The DC region remains one of the strongest population growth markets across the country, which should continue to drive residential demand throughout the region. **Hospitality:** Occupancy % remained constant despite large influx of new inventory.	• Federal budget constraints could reduce the real estate demand for office by Federal agencies and contractors over the next several years. • Rightsizing within the Federal government is still in early stages and could have big impact on non-core markets such as Southeast, Southwest and NoMa. • Job growth within the Federal government and contractor sectors could be curtailed based on annual deficits and long-term debt problems, resulting in less demand for residential. • There is an over-saturation of high-end residential product, with oversupply potential at the high-end of the market as developers rarely build commodity or middle-priced product. • Population growth rate may not keep up with high vacancy and large residential development pipeline.
Absorption	***CURRENT CONDITIONS: IMPROVING*** ***Office*** net absorption averaged over 1.0 million SF per year since 2006. Although annual absorption is positive, it is not at the same levels as historical averages of 1.5 to 1.7 million square feet per year since 1980. ***Residential*** net absorption averaged over 2,100 units per year since 2005.	• Current absorption is insufficient to allow accommodate over 3.9 million SF from Federal inventory • Absorption will remain below historic averages as long as Federal budget constraints are sustained.

Indicator	Observations	Risks
Pipeline	***CURRENT CONDITIONS: STRONG*** **Office:** Pullback in speculative office development will stabilize the market. But once the market heats up, like it has recently, developers in DC become overly aggressive and build in excess of demand, as has happened the past two cycles. **Mixed-use:** There are three large-scale mixed-use projects in the pipeline with over 4 million SF of office, and over 3,500 residential units. **GSA:** Two large scale GSA exchange opportunities which could set the market for GSA disposals.	• Majority of new office development requires pre-leasing, and it is uncertain when lenders will once again accept risk for speculative office development. • Substantial amount of residential and mixed-use projects in development which could lead to market saturation. • Inability of GSA to implement two existing projects may reduce interest among investors for additional disposals.

The figures below provide an overview of the projected absorption, deliveries, and vacancy for office space in Washington, DC. If net absorption and deliveries revert to their long term averages of 1.3 million per SF and 1.5 million per SF respectively, vacancy would remain between 11% and 12%.

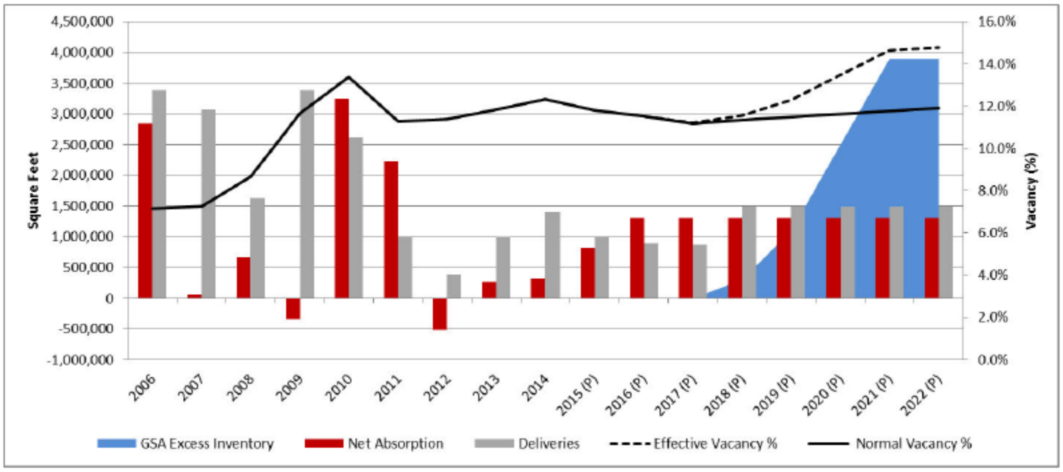
Figure 1: Office - Projected Absorption, Deliveries, and Vacancy (2006-2022)



Source: Source: JLL Research; CoStar

However, if GSA were to dispose of several buildings, including the Wilbur Wright Building (300K SF), Orville Wright Building (800K SF), Frances Perkins Building (1.4 million SF), and James Forrestal Building (1.4 million SF), in the respective order and maintaining their existing use and building envelope, the market would effectively receive 3.9 million rentable SF. Although this would not count as vacant space in the market until it was made available for rent, the effective vacancy could potentially increase to over 14%.

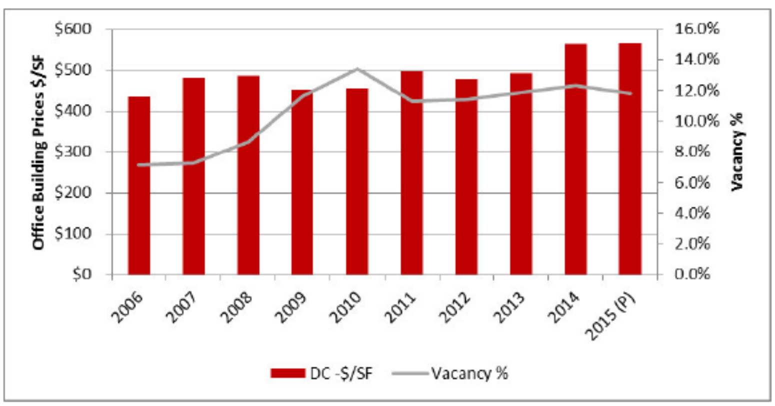
Figure 2: Residential Projected Absorption, Deliveries, and Effective Vacancy (2006-2022)



Source: JLL Research; CoStar

Increased vacancy does not always have a positive correlation on asset values. The table below illustrates that despite sustained high vacancy rates in the DC market, asset prices continued to climb to record highs on a per SF basis. As new and improved office product enters the market, older and more obsolete buildings will lose tenants to new product in preferred location with better amenities. This shows that informed investors are willing to provide capital for quality product.

Figure 3: Vacancy Rates and Office Building Prices



Source: CoStar; Real Capital Analytics

As an additional example of the impact of the GSA properties on the DC development pipeline, the following table provides a summary of the expected deliveries for each of the real estate products and estimates the number of years it would take to fully absorb vacant and projected inventory, including GSA's disposal assets, assuming the building use can change but envelope remains the same:

Table 3: Washington, DC Development Pipeline Projections

Product Type	Units of Measure	Total Pipeline	Existing Vacant (Q2 2015)	GSA Proposed Disposal	Total Projected Unleased Inventory	Average Annual Absorption	Years to Absorb Unleased Inventory
Office	SF	13.7M	13.4M	(b) (4) [redacted]	**31.0M**	1.3M	24 Years
Residential	Units	39,300	15,000	[redacted]	**54,300**	2,100	26 Years
Hospitality	Keys	2,965	30%	[redacted]	**N/A**	N/A	N/A

In addition to the impact of adding 3.9 million SF of space to the market, is the impact to the commercial real estate market of potentially adding several Federal tenants to the market, each with thousands of employees. The impact to the market will depend on GSA's strategy for housing these agencies. If the agencies housed in the four properties relocate to existing Federal owned space or a build-to-suit lease, there will be little direct impact to market vacancy, absorption, or value. If the agencies relocate to existing leased space, then these tenants will help improve vacancy and promote increased values within these asset classes. However, it is unlikely that there are existing buildings within DC that are suitable for Federal use that can adequately consolidate these agencies in contiguous space.

D. Additional Considerations

Conditions*:** ***Market favorable for transit oriented, amenity-rich enclaves with flexible zoning codes.

Results*:** ***An asset located in a transit oriented submarket with flexible zoning codes can be marketable despite risks associated with market conditions and a saturated development pipeline.

Conclusion*:** ***Prioritize assets near public transportation and with favorable zoning codes. Transaction structure will impact the net present value of the disposal proceeds to GSA.

The table below summarizes additional considerations that influence a real estate disposal decision and their potential risks.

Table 4: Additional Considerations

Indicator	Observations	Risks
Zoning Regulation Review (ZRR)	***CURRENT CONDITIONS: FAVORABLE*** ZRR is more favorable than current zoning regulations in downtown DC.	• Zoning rights can change prior to city approval.
Demand for Amenities	***CURRENT CONDITIONS: ASSET SPECIFIC, FAVORABLE FOR TRANSIT ORIENTED LOCATIONS*** Changing demographics and workforce preferences for walkable communities will shift demand from traditional suburban office parks to more vibrant, transit-accessible submarkets in the urban and suburban cores.	• Properties located in fringe locations will not see vibrancy until GSA and Federal leasing activity pick up, which could be several years away due to rightsizing, budget scrutiny, and congressional and OMB approvals.
Administrative Hurdles Impacting Time to Market	***CURRENT CONDITIONS: WEAK*** Time to market is not only dictated by market fundamentals but by statutory and regulatory disposal processes.	• Due to process requirements, market fundamentals might change by the time GSA is ready to implement a disposal decision. • Optimal Federal action may not be possible due to current asset acquisition and disposal processes.

Indicator	Observations	Risks
Transaction Structure	***NET PRESENT VALUE (NPV) TO GOVERNMENT:*** Highest NPV: Fee Simple Sale Lowest NPV: Exchange	• Fee Simple Sale: Decision to dispose occurs during market highs; however, actual disposal could occur during market lows, reducing value to government. • Exchange: Project delays and cost overruns could reduce scope delivered to government.

E. Conclusion

The Team applied four key valuation factors to the four specific GSA owned assets in Washington, DC as a framework to assess how current real estate market conditions and non-market factors would impact the value of GSA owned assets. The factors are:

- Factor 1: Real Estate Market Trends
- Factor 2: DC Metro Real Estate Pipeline
- Factor 3: Proposed Washington, DC ZRR
- Factor 4: Capital Market Overview

Table 5: Department of Labor, Frances Perkins Building

Factor	Discussion
Factor 1: Real Estate Market Trends	***Strong market valuation fundamentals. GSA can capitalize today on high rents and property values in this submarket.*** • Capitol Hill office submarket (a continuation of the CBD and East End) has high rental rates and high sales prices per SF, but low sales volume due to a lack of product as the submarket is only 4.5 million SF (a fraction of the size of the CBD and East End). • Commercial office demand for this submarket will continue to grow over the next five to six years due to increasing demand levels from lobbyists and organizations that have substantial government relations functions (non-profits, associations, Fortune 500 companies). • Residential submarket is limited, but has the potential to be in high demand due to its location to the Hill, corresponding with potential market-leading rental rates. • Proximity to Archives and Judiciary Square metro stations, Gallery Place enclave and the Capitol Building is a strong positive.
Factor 2: DC Metro Real Estate Pipeline	***Market vacancy is on the decline, but new Class A office product and mixed-use projects are in the pipeline; GSA would need to act quickly.*** • Capitol Hill office submarket has declining vacancy but with a large development pipeline beginning with Capitol Crossing. Disposal would add 1.4 million RSF of existing office to the Capitol Hill submarket or a maximum of 2.8 million SF of redeveloped office (assumes 6.5 FAR). • Frances Perkins building, because it sits along Pennsylvania Avenue, is in a superior location to that of Capitol Crossing. This will likely limit Capitol Crossing's long-term demand based on the market-leading rents the project seeks.

Factor	Discussion
	• The redevelopment of the J. Edgar Hoover Building (Proposed) may compete for tenants if the projects broke ground concurrently.
Factor 3: Proposed Washington, DC ZRR	(b) (5) [redacted]
Factor 4: Capital Markets Overview	***Real Estate investment capital is still relatively cheap and there is plenty of developer interest in Washington, DC and in this submarket.*** • Interest rates and cap rates are still low and there is significant interest in the DC and Capitol Hill market among a diverse group of capital investors, both foreign and domestic, as shown by the recent Americas Square high watermark sale a few months ago. • Interest rate increase later in 2015 will impact some domestic players, but have less of an impact on global capital and that is a benefit to Capitol Hill.

Table 6: Department of Energy, James Forrestal Building

Factor	Discussion
Factor 1: Real Estate Market Trends	***Soft market fundamentals, but showing signs of improvement. GSA might not be able to obtain top value for this prestigious location.*** • Southwest submarket has the lowest office rental rates in downtown DC with limited to no sales volume. The submarket is dominated by Federal government demand, which today, is almost non-existent from a growth perspective. • Residential submarket rents are holding constant, but property values ticked up in recent years. Almost all existing and proposed residential units and amenities are located south of the I-395/695 freeway. • Prestigious address and proximity to metro is preferred; however, there is a lack of neighborhood amenities to attract interest. Risk premium might be higher for first developments on this parcel since this is the first non-Federal office use within this enclave.
Factor 2: DC Metro Real Estate Pipeline	***Reduced Federal leasing in this submarket, as well as consolidation strategies will keep vacancy high in this market and competitive markets like NoMa and Southeast high for the near future. However, large-scale projects like the Wharf could help reshape the market longer term.*** • Disposal would add 1.8 million GSF (existing) of office or ~4.5 million GSF (maximum commercial FAR of 6.5) of total development to the Southwest submarket. • Large campus (16 acres) cannot be parcelized and must be sold as one-contiguous asset due to existing configuration. • Two new large developments including the Wharf and the redeveloped L'Enfant Plaza as well as the subsequent moves by the American

Factor	Discussion
	Psychological Association and the International Spy Museum may revitalize interest in this submarket. • Three residential buildings are under construction in this submarket, but none are north of I-395 freeway. Only one building proposed in the long-term reinforces the lack of residential use in this enclave. • Federal Triangle South development will be a key indicator of market interest for mixed-use development on Federal properties in this submarket.
Factor 3: Proposed Washington, DC ZRR	(b) (5) [redacted]
Factor 4: Capital Markets Overview	***Real Estate investment capital is still relatively cheap and there is plenty of developer interest in Washington, DC, but there is limited interest in the Southwest market.*** • Interest rates and cap rates are still low and there is significant interest in the DC market, but limited interest in the current market for product in the Southwest market. • The Wharf is a positive trend for this market, which required almost $200 million in public funds to help make this project work.

Table 7: Department of Transportation, Orville Wright Building

Factor	Discussion
Factor 1: Real Estate Market Trends	***Soft market fundamentals, but showing signs of improvement. GSA might not be able to obtain top value for this prestigious location.*** • Southwest submarket has the lowest office rental rates in downtown DC with limited to no sales volume. The submarket is dominated by Federal government demand, which today, is almost non-existent from a growth perspective. • Residential submarket rents are holding constant, but property values ticked up in recent years. Almost all residential units and amenities are located south of the I-395/695 freeway. • Prestigious address and proximity to metro is preferred; however, there is a lack of neighborhood amenities to attract interest. Risk premium might be higher for first development on this parcel since this is the first non-Federal office use within this enclave.
Factor 2: DC Metro Real Estate Pipeline	***Reduced Federal leasing in this submarket, as well as consolidation strategies will keep vacancy high in this market and competitive markets like NoMa and Southeast high for the near future. However, large-scale projects like the Wharf could help reshape the market longer term.*** • Disposal would add 1.1 million GSF of existing or new office (maximum commercial FAR of 6.5) of total development to the

Factor	Discussion
	Southwest submarket. • Relatively small site will allow for disposal as a stand-alone asset or in combination with Wilbur Wright or Forrestal. • Two new large developments including the Wharf and the redeveloped L'Enfant Plaza as well as the subsequent moves by the American Psychological Association and the International Spy Museum may revitalize interest in this submarket. • Three residential buildings are under construction in this submarket, but none are north of I-395/695 freeway, with only one building proposed in the long-term. • Federal Triangle South development will be a key indicator of market interest for mixed-use development on Federal properties in this submarket.
Factor 3: Proposed Washington, DC ZRR	(b) (5) [redacted]
Factor 4: Capital Markets Overview	***Real Estate investment capital is still relatively cheap and there is plenty of developer interest in Washington, DC, but there is limited interest in the Southwest market.*** • Interest rates and cap rates are still low and there is significant interest in the DC market, but limited interest in the current market for product in the Southwest market.

Table 8: Department of Transportation, Wilbur Wright Building

Factor	Discussion
Factor 1: Real Estate Market Trends	***Soft market fundamentals, but showing signs of improvement. GSA might not be able to obtain top value for this prestigious location.*** • Southwest submarket has the lowest office rental rates in downtown DC with limited to no sales volume. The submarket is dominated by Federal government demand, which today, is almost non-existent from a growth perspective. • Residential submarket rents are holding constant, but property values ticked up in recent years. Almost all residential units and amenities are located south of the I-395/695 freeway. • Prestigious address and proximity to metro is preferred; however, there is a lack of neighborhood amenities to attract interest. Risk premium might be higher for first developments on this parcel since this is the first non-Federal office use within this enclave.

Factor	Discussion
Factor 2: DC Metro Real Estate Pipeline	***Reduced Federal leasing in this submarket, as well as consolidation strategies will keep vacancy high in this market and competitive markets like NoMa and Southeast high for the near future. However, large-scale projects like the Wharf could help reshape the market longer term.*** • Disposal would add 400K GSF of office (existing) or ~600K GSF (maximum commercial FAR of 6.5) of total development to the Southwest submarket. • Relatively small site will allow for disposal as a stand-alone asset or in combination with Orville Wright or Forrestal. • Two new large developments including the Wharf and the redeveloped L'Enfant Plaza as well as the subsequent moves by the American Psychological Association and the International Spy Museum may revitalize interest in this submarket. • Three residential buildings are under construction in this submarket, but none are north of I-395/695 freeway, with only one building proposed in the long-term. • Federal Triangle South development will be a key indicator of market interest for mixed-use development on Federal properties in this submarket.
Factor 3: Proposed Washington, DC ZRR	(b) (5) [redacted]
Factor 4: Capital Markets Overview	***Real Estate investment capital is still relatively cheap and there is plenty of developer interest in Washington, DC, but there is limited interest in the Southwest market.*** • Interest rates and cap rates are still low and there is significant interest in the DC market, but limited interest in the current market for product in the Southwest market.